Freight Performance & Carrier Strategy

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Overview

1. Problem
2. Data
3. Metrics
4. Initial Findings
5. Carrier Clustering Findings
6. Shipper Profiles
7. Implications
1. Problem

Determine groupings of attributes that influence carrier strategy and shipper profile performance.
Why is this important?

Transportation efficiency is increasingly becoming a critical component of business strategy for shippers.

Shippers and carriers in the freight industry are seeking to improve their efficiency and profitability in this competitive market.
2. Data

Analysis was completed on dataset spanning January 2014 – December 2016 including Tender Level and Stop Level data from our sponsor company.
Origins and Destinations
3. Metrics

- On Time Delivery (OTD)
- On Time Pick Up (OTP)
- 1st Tender Acceptance Rate (AR)
- Perfect Shipment
<table>
<thead>
<tr>
<th>Measure</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTD</td>
<td>84%</td>
<td>88%</td>
<td>87%</td>
<td>87%</td>
</tr>
<tr>
<td>Price/Mile</td>
<td>$2.47</td>
<td>$2.28</td>
<td>$2.10</td>
<td>$2.19</td>
</tr>
<tr>
<td>1st Tender AR</td>
<td>71%</td>
<td>76%</td>
<td>85%</td>
<td>80%</td>
</tr>
</tbody>
</table>
4. Initial Findings

Binary Logistic Regressions

OTD, OTP, 1st Tender Acceptance, Perfect Shipment
# High Performing Profile Regression Comparison

<table>
<thead>
<tr>
<th></th>
<th>1st Tender Acceptance</th>
<th>OTD</th>
<th>OTP</th>
<th>Perfect Shipment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrier Type</strong></td>
<td>Asset Carrier</td>
<td>Not Significant</td>
<td>Asset Carrier</td>
<td>Asset Carrier</td>
</tr>
<tr>
<td><strong>Tendered On</strong></td>
<td>Weekday</td>
<td>Not Significant</td>
<td>Weekday</td>
<td>Weekday</td>
</tr>
<tr>
<td><strong>Shipper Industry</strong></td>
<td>Manufacturing</td>
<td>Paper &amp; Packaging</td>
<td>Manufacturing</td>
<td>Manufacturing</td>
</tr>
<tr>
<td><strong>Bid Type</strong></td>
<td>Non-Spot</td>
<td>Spot</td>
<td>Spot</td>
<td>Non-Spot</td>
</tr>
<tr>
<td><strong>Length of Haul</strong></td>
<td>&gt;706 miles</td>
<td>&gt;723 miles</td>
<td>Not Significant</td>
<td>&gt;716 miles</td>
</tr>
<tr>
<td><strong>Tender Lead Time</strong></td>
<td>&gt;1.3 days</td>
<td>Not Significant</td>
<td>Not Significant</td>
<td>&gt;2.4 days</td>
</tr>
<tr>
<td><strong>Price Age</strong></td>
<td>&lt;152 days</td>
<td>&lt;151 days</td>
<td>&lt;152 days</td>
<td>&lt;148 days</td>
</tr>
</tbody>
</table>
5. Carrier Clustering Findings

Hierarchical clustering for carriers based on:

- Fleet Size (how many trucks)
- Geographic Coverage (number of states covered)
- Number of Lanes served
- Number of Customers served
- Industry Coverage
- Lane Focus (number of loads per lane)
- Customer Focus (load density per customer)
- Total Number of Loads
Clustering for Carrier Profiles

Constellation Chart

Dendrogram

1 Leaders
2 Major Players
3 Laggards

Asset based carriers and non-asset based carriers were clustered separately.
Clustering for Carrier Profiles – Profiling for asset based carriers

- **Best Performer (110) - Leader**
  - Perfect Shipment Rate: **76%**
  - Mid-sized Carriers
  - Focus on limited number of customers within a single industry
  - Focus on certain lanes and geographical regions as niche markets

- **Low Performer (182) - Laggard**
  - Perfect Shipment Rate: **31%**
  - Mid-sized Carriers
  - Serve relatively large number of customers
  - Low lane and customer focus

- **Mediocre (103) – Major Player**
  - Perfect Shipment Rate: **56.3%**
  - Large Carriers (1000+)
  - Wide geographical service coverage
  - Serve many customers across different industries.
Clustering for Carrier Profiles – Profiling for non-asset based carriers

- **Best Performer (110) - Leader**
  - Perfect shipment rate **86%**

- **Low Performer (182) - Laggard**
  - Perfect shipment rate **43%**

- **Mediocre (103) – Major Players**
  - Perfect shipment rate **66 %**

**Notice:**

- Lane coverage smaller for non-asset carrier base than for asset based carrier base
- To maximize clustering effects, number of customers and number of lanes served replaced customer and lane focus

**Non Asset Carrier Characteristics:**

- Leading carriers also show focus in terms of customers and lanes
- Loads per carriers for non-asset leaders is much smaller than for the asset based carrier leaders, this could reflect capacity limit or more focused strategy
- The major player cluster takes 80% of the total loads of non-asset category, reflecting a more concentrated capacity
Clustering for Carrier Profiles – Consistency of Performance

Both asset and non-asset based carriers show the same pattern:

- **Leader** group is more consistent than **Laggard** group in terms of standard deviation of performance on both OTD and 1st Order Acceptance.

- The spread of **Laggard** group of OTD and AR is wide and polarized i.e. good OTD but poor AR and vice versa.
1\textsuperscript{st} Hypothesis: A carrier will perform better if it has more consistent loads

According to the hypothesis, Carrier 1 should have better performance than Carrier 2

**Period Density**: Loads per as % of total loads in a 2 year time frame for a carrier.
Null hypothesis is rejected for Major Players

Within the Major Players group there was a strong negative correlation between Std Deviation of Period Density and Perfect shipment.

The more inconsistent loads are across periods, the lower the perfect shipment rate is.
2\textsuperscript{nd} Hypothesis: A carrier will perform better in its high density lanes than low density lanes

Do carriers have high and low density lanes?

Only a small number of Carriers have lanes with high Load density (>3%). Those are about 9% of the total Loads in Major Player cluster.
Null hypothesis is **rejected** for Major Players

Cluster 3:
1.8% of lane-carrier combination, lane density at 10% with 82% perfect shipment, outperform others with low density
6. Shipper Profiles

Analysis of shipper’s portfolios of carriers viewed by carrier strategy and carrier asset base offered insights on strong-performing portfolio mixes to help inform future routing guide decisions.
Shipper Performance Breakdown by Portfolio of Carrier Clusters
Shipper Perspective - Carrier Deployment by Shippers

**High Service Level Shippers**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Graphical Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ave. Perfect Shipment</td>
<td>82.0%</td>
<td>![Graph1]</td>
</tr>
<tr>
<td>Ave. Carrier used</td>
<td>30</td>
<td>![Graph2]</td>
</tr>
<tr>
<td>Total Loads</td>
<td>47,242</td>
<td>![Graph3]</td>
</tr>
<tr>
<td>Ave Lanes</td>
<td>323</td>
<td>![Graph4]</td>
</tr>
<tr>
<td>Ave. States</td>
<td>20</td>
<td>![Graph5]</td>
</tr>
</tbody>
</table>

**Loads Distribution - Asset Carrier vs Broker**

- Asset based Carrier: 58%
- Broker: 42%

**% of used Carriers - Asset Carrier vs Broker**

- Asset-based Carrier: 70%
- Broker: 30%
Shipper Perspective - Carrier Deployment by Shippers

**Low Service Level Shippers**

- **Ave Perfect Shipment**: 46.0%
- **Ave Carrier used**: 45
- **Total Loads**: 520,639
- **Ave. Lanes**: 583
- **Ave. States**: 21

**Loads Distribution**
- Asset based Carrier: 74%
- Broker: 26%

**% of used Carriers**
- Asset based Carrier: 75%
- Broker: 21%

**Shippers**
- laggard
- leader
- Major Player
- SLDC
- RBTW
- Other

**Major Players**
- laggard
- leader
- Major Player
- SLDC
- RBTW
- Other
Shipper Perspective - Carrier Deployment Conclusion

**Insight 1:** Non-asset carriers can be the right strategic choice for a shipper

There is *no significant service performance difference* from solely favoring asset based carriers.

<table>
<thead>
<tr>
<th>Shipper Performance</th>
<th>Perfect Shipment Rate</th>
<th>Proportion of Asset Based Carriers</th>
<th>Proportion of Non-Asset Based Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performance Profile 1</td>
<td>82%</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>High Performance Profile 2</td>
<td>81%</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Low Performance</td>
<td>46%</td>
<td>79%</td>
<td>21%</td>
</tr>
</tbody>
</table>
Insight 2: Leader carriers improve shipper’s overall service received.

High performing shippers use significantly more focused carriers.

<table>
<thead>
<tr>
<th>Shipper Performance</th>
<th>Perfect Shipment Rate</th>
<th>Proportion of Leader Carriers (asset &amp; non-asset)</th>
<th>Proportion of Loads by Leader Carriers (asset &amp; non-asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performance Profile 1</td>
<td>82%</td>
<td>42%</td>
<td>51%</td>
</tr>
<tr>
<td>High Performance Profile 2</td>
<td>81%</td>
<td>51%</td>
<td>82%</td>
</tr>
<tr>
<td>Low Performance</td>
<td>46%</td>
<td>5%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Insight 3: Major carriers offer the most capacity to the market.

All shippers use Major Players to cover their loads but need to consider which Major Players are regional leaders.

<table>
<thead>
<tr>
<th>Shipper Performance</th>
<th>Perfect Shipment Rate</th>
<th>Proportion of Major Player Carriers (asset &amp; non-asset)</th>
<th>Proportion of Loads by Major Player Carriers (asset &amp; non-asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performance Profile 1</td>
<td>82%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>High Performance Profile 2</td>
<td>81%</td>
<td>44%</td>
<td>16%</td>
</tr>
<tr>
<td>Low Performance</td>
<td>46%</td>
<td>42%</td>
<td>6%</td>
</tr>
</tbody>
</table>
7. Implications

Differing carrier strategies and roles result in different service performance.

Some groups of attributes work together to improve freight performance. These include longer lead times, consistency of load volume, geographic and lane focus, younger price ages, and certain mixes of types of both asset and non-asset carriers within a shipper’s portfolio.

Diversified shipper portfolios with a higher proportion of more focused carriers have stronger performance.
Implications for Carrier Procurement and Deployment

The **Pecking Order** of carrier selection:

1. Identify Leader (more lane and customer focused) carriers in the lanes for which a shipper needs truckload service and maximize leader carrier’s available capacity. **Develop relationships** to build this group.

2. Identify carriers in Major Players group, maximize their capacity in the lanes in which they are “**regional leaders**.”

3. Complement the remaining loads using carriers in the Major Players group.
Broader Research Implications

Carriers are rated on a general scorecard which allows them to benchmark and gives shippers some guidance on developing their routing guides. However, we found clear distinctions in marketplace role and subsequent strategy for carriers, which had direct implications for their service performance. Suggests that the uniform scorecards used to evaluate shipper performance may not be the most appropriate way to rate carriers.
What does this mean?

Developing **strategy specific key performance metrics** and corresponding scorecards would give shippers a better understanding of carrier performance relative to their specific market needs.

This would also allow better visibility for shippers to **build strategic relationships** with the right carriers for them.
Thank you!

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Andrew Welch
Gaurav Karker
Questions?